

ARTICLE III

TREATMENT OF CLAIMS AND INTERESTS

3.1. *Unclassified Claims.*

(a) *Administrative Claims.* Subject to the provisions of sections 330(a), 331 and 503(b) of the Bankruptcy Code, each Administrative Claim shall be paid by the Debtor, at its election, (a) in full, in Cash, in such amounts as are incurred in the ordinary course of business by the Debtor, or in such amounts as such Administrative Claim becomes an Allowed Claim by the Bankruptcy Court, (b) upon such other terms as may exist in the ordinary course of the Debtor's business, or (c) upon such other terms as may be agreed upon between the Holder of such Administrative Claim and the Debtor.

(i) Professional Fees. All final applications for Professional Fees for services rendered in connection with the Chapter 11 Case prior to the Confirmation Date shall be filed no later than thirty (30) days after the Effective Date.

(ii) Note Trustee Fee. Subject to review by the Debtor and any creditors' committee for reasonableness, all reasonable compensation, fees, expenses, disbursements and indemnity claims incurred by the Note Trustees before, on and after the Petition Date, including the reasonable fees, expenses and disbursements of agents and counsel retained by the Note Trustees, shall be paid in Cash on or as soon as practicable after the Effective Date by Reorganized XO as an Administrative Claim, without the need for application to, or approval of, any court; provide, however, that any dispute as to the reasonableness of such fees shall be determined by the Bankruptcy Court. To the extent that the Note Trustees provide services related to distributions pursuant to the Plan, the Note Trustee will receive from Reorganized XO, without court approval, reasonable compensation for such services and reimbursement of reasonable expenses incurred in connection with such services. These payments will be made on terms agreed to between the Note Trustees, respectively, and Reorganized XO.

(b) *Priority Tax Claims.* The legal and equitable rights of the Holders of Priority Tax Claims are Unimpaired by this Plan. On, or as soon as reasonably practicable after the later of (i) the Distribution Date if such Priority Tax Claim is an Allowed Priority Tax Claim as of the Effective Date or (ii) the date on which such Priority Tax Claim becomes an Allowed Priority Tax Claim, each Holder of an Allowed Priority Tax Claim shall receive in full satisfaction, settlement and release of, and in exchange for such Allowed Priority Tax Claim, at the election of the Debtor, (A) deferred payments in Cash, over a period not exceeding six years after the date of assessment of such Allowed Claim, equal to the amount of such Allowed Priority Tax Claim; (B) such other treatment as to which the Debtor or Reorganized XO and the Holder of such Allowed Priority Tax Claim shall have agreed upon in writing; or (C) such other treatment so that it will not be Impaired pursuant to section 1124 of the Bankruptcy Code; further provided, any Allowed Priority Tax Claim accruing or arising prior to the Confirmation Date but

not due and owing on the Effective Date will be paid in accordance with this section when such Claim becomes due and owing.

3.2. *Unimpaired Classes of Claims.*

(a) *Class 2: Other Secured Claims.* Class 2 consists of Other Secured Claims. The legal, equitable and contractual rights (including all applicable security interests) of the Holders of Allowed Other Secured Claims are Unimpaired by this Plan and all such Claims shall be Reinstated on the Effective Date. Each Holder of an Other Secured Claim with unique collateral or rights shall constitute its own subclass for classification purposes.

(b) *Class 3: Non-Tax Priority Claims.* Class 3 consists of Non-Tax Priority Claims. The legal and equitable rights of the Holders of Allowed Non-Tax Priority Claims are Unimpaired by this Plan and all such Claims shall be Reinstated on the Effective Date.

(c) *Class 4: Convenience Claims.* Class 4 consists of Convenience Claims. On or as soon as reasonably practicable after the Distribution Date, Holders of an Allowed Claim in Class 4 shall be paid in Cash 100% of their Allowed Convenience Claim amount in full satisfaction of any Claims against the Debtor or the Estate, which distributions shall be made in accordance with the provisions set forth in this Plan. Such Distribution shall be the sole Distribution to which holders of Class 4 Claims shall be entitled.

3.3. *Impaired Classes of Claims.*

(a) *Class 1. Senior Secured Lender Claims.* Class 1 consists of Senior Secured Lender Claims. The Senior Secured Lender Claims are Allowed as secured claims under 11 U.S.C. §§ 506(a) and 507(b) pursuant to this Plan in the aggregate amount of \$1 billion plus accrued and unpaid interest and Administrative Agent Fee Claims through the Effective Date. The legal, equitable and contractual rights of the Holders of Allowed Senior Secured Lender Claims are impaired by this Plan. Holders of Senior Secured Lender Claims shall be entitled to vote on this Plan. Subject to Section 3.7 of the Plan, Holders of Senior Secured Lender claims shall receive the following treatment:

(i) *Treatment if the Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, then on the Effective Date, all Allowed Senior Secured Lender Claims (including all applicable security interests) shall remain outstanding subject to the terms of the Senior Credit Facility, as amended and restated by the Amended and Restated Senior Credit Facility. All interest that accrued prior to and remains unpaid as of the Effective Date shall be paid in Cash on the Effective Date or as soon as reasonably practicable thereafter.

(ii) *Treatment if the Stand-Alone Events occur.* If the Stand-Alone Events occur, on the Effective Date, each Holder of an Allowed Senior Secured Lender Claim shall receive its pro rata share of:

(w) the New Junior Secured Loans;

(x) (1) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 90,250,000 shares of the New Reorganization Common Stock representing 95% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date, or (2) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, 95,000,000 shares of the New Reorganization Common Stock representing 100% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (in each case subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);

(y) the Nontransferable Rights, subject to redistribution pursuant to Sections 3.3(b), 3.3(c), 3.3(d), 3.4(a) and 3.4(b) of this Plan; and

(z) the Transferable Rights.

(b) *Class 5: General Unsecured Claims.* Class 5 is impaired under this Plan and consists of the General Unsecured Claims. The Holder of General Unsecured Claims shall be entitled to vote on this Plan.

(i) *Treatment if Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, then, subject to Sections 7.2 and 8.3 of the Plan, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive, in full satisfaction, release, and discharge of its Allowed General Unsecured Claim, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of:

(x) 36,000,000 shares of New Common Stock representing 18% of the fully diluted common equity of Reorganized XO on the Effective Date (without giving effect to the New Common Stock issuable upon exercise of any options granted, or available for grant, to management or other employees of the Company) to be issued on the Effective Date in accordance with this Plan; and

(y) Two Hundred Million Dollars (\$200,000,000).

(ii) *Treatment if the Stand-Alone Events Occur.* If the Stand-Alone Events occur, then, subject to Sections 7.2 and 8.3 of the Plan, and depending upon the level of Senior Note Claim approval obtained for the Stand-Alone Plan, as set forth below, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive in full satisfaction, release, and discharge of its Allowed General Unsecured Claim, all as a gift from the entitled distribution of Holders of Senior Secured Lender Claims:

(x) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim, and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of:

(1) 4,750,000 shares of the New Reorganization Common Stock representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);

(2) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

(3) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

(4) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and

outstanding on the Effective Date of the Stand-Alone Plan);
and

(5) 10% of the FL/Telmex Recovery.

(y) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim, and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);
and

(z) regardless of any vote or recommendation with respect to the Plan, the Nontransferable Rights allocable to the Holders of General Unsecured Claims pursuant to Section 3.6 of this Plan.

Each Holder of an Allowed General Unsecured Claim not exceeding \$100,000 may elect on or before the Voting Deadline to have its Claim treated as a \$5,000 Convenience Claim in Class 4 (Convenience Class) under this Plan in lieu of treatment as a Class 5 Claim and in full satisfaction of any and all distributions to be made under the Plan.

(c) *Class 6: Senior Note Claims.* Class 6 is impaired under this Plan and consists of Senior Note Claims. The Holders of Senior Note Claims, as of the Voting Record Date, shall be entitled to vote on this Plan. Pursuant to 11 U.S.C. § 510(b) all contractual subordination provisions in the Indentures shall be enforced for the purposes of all distributions under this Plan.

(i) *Treatment if Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, then subject to Section 7.2 of the Plan, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed Senior Note Claim shall receive, in full satisfaction, release, and discharge of its Allowed Senior Note Claim, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of:

(x) 36,000,000 shares of New Common Stock representing 18% of the fully diluted common equity of Reorganized XO on the Effective Date (without giving effect to the New Common Stock issuable upon exercise of any options granted, or available for grant, to management or other employees of the Company) to be issued on the Effective Date in accordance with this Plan; and

(y) Two Hundred Million Dollars (\$200,000,000).

(ii) *Treatment if the Stand-Alone Events occur.* If the Stand-Alone Events occur, then, subject to Sections 7.2 and 8.3 of the Plan, and depending upon the level of Senior Note Claim approval obtained for the Stand-Alone Plan, as set forth below, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed Senior Note Claim shall receive in full satisfaction, release, and discharge of its Allowed Senior Note Claim, all as a gift from the entitled distribution of Holders of Senior Secured Lender Claims:

(x) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim, and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of:

(1) 4,750,000 shares of the New Reorganization Common Stock representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);

(2) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

(3) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common

Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

(4) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and

(5) 10% of the FL/Telmex Recovery.

(y) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim, and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and

(z) regardless of any vote or recommendation with respect to the Plan, the Nontransferable Rights allocable to the Holders of Senior Note Claims pursuant to Section 3.6 of this Plan.

(d) *Class 7: Subordinated Note Claims.* Class 7 is impaired under this Plan and consists of Subordinated Notes Claims. Pursuant to 11 U.S.C. §510(b) all contractual subordination provisions in the Indentures shall be enforced for the purposes of all distributions under this Plan. Holders of Claims in this Class are deemed to have rejected the Plan. Therefore, Class 7 is not entitled to vote to accept or reject this Plan.

(i) *Treatment if Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, Holders of Subordinated Note Claims shall not receive or retain any distribution under this Plan and the Subordinated Note Claims will be cancelled and/or discharged.

(ii) *Treatment if the Stand-Alone Events occur.* If the Stand-Alone Events occur, Holders of Subordinated Note Claims shall not receive or retain any distribution under this Plan and the Subordinated Note Claims will be cancelled and/or

discharged; provided, however, that each Holder of an Allowed Subordinated Note Claim shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the Face Amount of the Allowed Subordinated Note Claim as established pursuant to Section 3.6 below and the Denominator of which is the aggregate Face Amount of all Subordinated Note Claims as established pursuant to Section 3.6 below), of the Nontransferable Rights allocable to the Holders of Subordinated Note Claims pursuant to Section 3.6 of this Plan.

(e) *Class 8: Securities Claims.* Class 8 consists of Securities Claims. On the Effective Date of this Plan, such Securities Claims shall be discharged and the Holders of Securities Claims shall not receive or retain any distribution on account of such Securities Claims under this Plan. Holders of Claims in this Class are deemed to have rejected this Plan. Therefore, Class 8 is not entitled to vote to accept or reject this Plan.

3.4. *Impaired Classes of Interests.*

(a) *Class 9: Old Preferred Stock Interests.* Class 9 consists of Old Preferred Stock Interests. Holders of Old Preferred Stock Interests in this Class are deemed to have rejected this Plan. Therefore, Class 9 is not entitled to vote to accept or reject this Plan.

(i) *Treatment if Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, on the Effective Date of this Plan, Holders of Old Preferred Stock Interests shall not receive or retain any distribution under this Plan and the Old Preferred Stock Interests will be cancelled and/or discharged.

(ii) *Treatment if the Stand-Alone Events occur.* If the Stand-Alone Events occur, then, Holders of Old Preferred Stock Interests shall not receive or retain any distribution under this Plan and the Old Preferred Stock Interests will be cancelled and/or discharged; provided, however, that each Holder of an Allowed Old Preferred Stock Interest shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the liquidation preference of Old Preferred Stock (as established pursuant to Section 3.6 below) that is the basis for the Allowed Old Preferred Stock Interest and the Denominator of which is the aggregate liquidation preference of Old Preferred Stock (as established pursuant to Section 3.6 below) that is the basis for all Old Preferred Stock Interests), of the Nontransferable Rights allocable to the Holders of Old Preferred Stock Interests pursuant to Section 3.6 of this Plan.

(b) *Class 10: Old Common Stock Interests.* Class 10 consists of Old Common Stock Interests. Holders of Old Common Stock Interests in this Class are deemed to have rejected this Plan. Therefore, Class 10 is not entitled to vote to accept or reject this Plan. Subject to the provisions of Section 3.7 of the Plan, Holders of Interests in Class 10 shall be treated as follows:

(i) *Treatment if Transactions Contemplated by the Investment Agreement are Consummated.* If the transactions contemplated by the Investment Agreement are consummated, on the Effective Date of this Plan, such Old Common Stock Interests will be cancelled and/or discharged and the Holders of Old Common Stock Interests shall not receive or retain any distribution on account of such Old Common Stock Interests under this Plan.

(ii) *Treatment if the Stand-Alone Events occur.* If the Stand-Alone Events occur, then, Holders of Old Common Stock Interests shall not receive or retain any distribution under this Plan and the Old Common Stock Interests will be cancelled and/or discharged; provided, however, that each Holder of an Allowed Old Common Stock Interests shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the number of shares of Old Common Stock (as established pursuant to Section 3.6 below) that are the basis for the Allowed Old Common Stock Interest and the Denominator of which is the aggregate number of shares of Old Common Stock (as established pursuant to Section 3.6 below) that are the basis for all Old Common Stock Interests), of the Nontransferable Rights allocable to the Holders of Old Common Stock Interests pursuant to Section 3.6 of this Plan.

(c) *Class 11: Other Old Equity Interests.* Class 11 is impaired under this Plan and consists of Other Old Equity Interests. On the Effective Date of this Plan, such Other Old Equity Interests will be cancelled and/or discharged and the Holders of Other Old Equity Interests shall not receive or retain any distribution on account of such Other Old Equity Interests under this Plan. Holders of Other Old Equity Interests in this Class are deemed to have rejected this Plan. Therefore, Class 11 is not entitled to vote to accept or reject this Plan.

3.5. *Special Provision Regarding Unimpaired Claims.* Except as otherwise provided in this Plan, nothing shall affect the Debtor's or Reorganized XO's rights and defenses, both legal and equitable, with respect to any Unimpaired Claims, including, but not limited to, all rights with respect to legal and equitable defenses to setoff or recoupments against holders of Unimpaired Claims.

3.6. *Rights Offering.*

(a) If the Stand-Alone Events occur, XO will offer 40,000,000 Rights Shares at \$5.00 per share for an aggregate of \$200 million through the Rights Offering described below. Although Holders of General Unsecured Claims (Class 5), Senior Note Claims (Class 6), Subordinated Note Claims (Class 7), Old Preferred Stock Interests (Class 9) and Old Common Stock Interests (Class 10) are not entitled to any Rights under the Plan, based upon negotiations between the Debtor and the Senior Lenders Committee, Holders of Classes 5, 6, 7, 9 and 10 will have the opportunity to exercise Nontransferable Rights to subscribe for any or all of the Rights Shares, subject to the priority and allocation rules described below through the first business day after the 29th day after the Effective Date. Thereafter, Transferable Rights will be issued to the Holders of Senior Secured Lender Claims (Class 1) covering any Rights Shares not issued upon

exercise of Nontransferable Rights. The Transferable Rights will expire on the first business day after the 29th day after the Transferable Rights Certificates are delivered

(b) The following categories of Holders will have the opportunity to exercise Nontransferable Rights: (i) Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), (ii) Holders of Subordinated Note Claims (Class 7), (iii) Holders of Old Preferred Stock Interests (Class 9) and (iv) Holders of Old Common Stock Interests (Class 10). Each Holder will have the opportunity to specify on its Nontransferable Rights Certificate the total number of Rights Shares it wishes to purchase (up to the full amount of the offering), subject to allocation and pro ration as set forth below:

First: to the Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), pro rata based on the ratio of the amount of each such exercising Holder's Claim to the aggregate amount of all Claims in such Classes;

Second: one-third of any remaining Nontransferable Rights to each of the following groups of Holders:

(i) Holders of Subordinated Note Claims (Class 7),

(ii) Holders of Old Preferred Stock Interests (Class 9), and

(iii) Holders of Old Class A Common Stock Interests,

allocated in each case pro rata based on the ratio of the amount of each such exercising Holder's Claim, liquidation preference (in the case of Old Preferred Stock Interests) or number of shares (in the case of the Old Common Stock) to the aggregate amount of all Claims, liquidation preference or number of shares, as applicable, of such Holder's Class; provided that if, but only to the extent that, the Holders of Old Class A Common Stock Interests receive Nontransferable Rights with an aggregate exercise price of less than \$16,666,666, additional Nontransferable Rights will be issued and allocated to such Holders of Old Class A Common Stock Interests on such basis; provided, further, that any remaining Nontransferable Rights from such initial allocation to the Holders of Old Class A Common Stock Interests shall subsequently be reallocated to the Holders of Old Class A Common Stock Interests based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of Old Class A Common Stock Interests;

Third: any remaining Nontransferable Rights to the Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), pro rata based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of such Classes; and

Fourth: any remaining Nontransferable Rights to the Holders of Subordinated Note Claims (Class 7), Old Preferred Stock Interests (Class 9) and Old Common Stock Interests (Class 10) pro rata based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of such Classes.

(c) As soon as practicable after the Nontransferable Rights Expiration Date, if and to the extent that any outstanding Nontransferable Rights have not theretofore been exercised, the Company will issue and the Rights Agent will deliver to the Holders of Senior Secured Lenders Claims (Class 1) an equivalent number of Transferable Rights on a pro rata basis, based upon the amount of each such Holder's Class 1 Claims.

(d) For purposes of determining a Holder's pro rata share of the Rights Offering in Sections 3.3(a)(ii) above, the amount of each subject Claim or Interest shall be based on the liquidated amount of the subject Claim as of the Petition Date as reflected in the Debtor's Schedules unless otherwise ordered by the Bankruptcy Court. For purposes of determining a Holder's pro rata share of the Rights Offering in Sections 3.3(b)(ii), 3.3(c)(ii) and 3.3(d)(ii) above, the Face Amount shall be based on the liquidated amount of the subject Claims as of the Petition Date as reflected in the Debtor's Schedules unless otherwise ordered by the Bankruptcy Court. For purposes of determining a Holder's pro rata share of the Rights Offering in Sections 3.4(a)(ii) and 3.4(b)(ii) above, the number of shares of the subject Interests shall be based on the value of such Interests as of the Voting Record Date unless otherwise ordered by the Bankruptcy Court.

3.7. *Compromise and Settlement of Shareholder Lawsuit.* The Plan contemplates the compromise and settlement of the Shareholder Lawsuit pursuant to the terms of the Shareholder Stipulation. In connection with confirmation of the Plan, the Debtor shall file a motion seeking approval of the Shareholder Stipulation by the Bankruptcy Court. The Shareholder Stipulation provides, among other things, that Holders of Old Class A Common Stock Interests shall be entitled to receive certain consideration as a gift from the Holders of the Senior Secured Lender Claims in exchange for settling the Shareholder Lawsuit. The Shareholder Stipulation provides, among other things, the following consideration to the Holders of Old Class A Common Stock Interests:

(a) If the transactions contemplated by the Investment Agreement are consummated, the Holders of the Allowed Senior Secured Lender Claims waive their right to receive the first twenty million dollars (\$20,000,000) in Cash interest otherwise payable to them pursuant to Section 3.3(a)(i) of the Plan and instead such amount shall be paid into escrow on behalf of the Holders of Old Class A Common Stock Interests within seven (7) days after the

later of (x) the Effective Date and (y) the date such interest would otherwise be paid under the Plan; provided, that such amount, less any taxes, expenses, costs and attorneys' fees and expenses awarded by the court in which the Shareholder Lawsuit is pending or other court of competent jurisdiction shall be distributed on the Distribution Date or as soon thereafter as is practicable to Holders of Old Class A Common Stock Interests.

(b) If the Stand-Alone Events occur,

(i) In the event of a Successful Recovery in connection with any Investor Litigation not involving the receipt of Other Consideration by any party, XO or Reorganized XO, as applicable, shall pay or cause to be paid into escrow on behalf of Holders of Old Class A Common Stock Interests within seven (7) business days after XO's receipt of such Successful Recovery or any cash proceeds out of enforcing such Successful Recovery: (a) thirty-three and one-third percent (33 1/3%) of such Successful Recovery up to a maximum Successful Recovery of sixty million dollars (\$60,000,000), for a maximum payment to Holders of Old Class A Common Stock Interests of twenty million dollars (\$20,000,000); and in addition (b) three percent (3%) of the gross value of any such Successful Recovery in excess of sixty million dollars (\$60,000,000) (collectively, the "Successful Recovery Fund"). The administration, distribution and tax payments on the Successful Recovery Fund shall be handled in the same manner as set forth above in connection with the Settlement Fund and distributions therefrom shall be made to Holders of Old Class A Common Stock Interests.

(ii) In the event that a Successful Recovery involves the receipt of Other Consideration by any party, then two independent investment advisors selected by Plaintiffs and XO, respectively, will agree on a value for the Successful Recovery. If no agreement can be reached between these two investment advisors, such advisors shall mutually agree upon and appoint a neutral advisor to value the Successful Recovery. After the agreement or neutral determination of the value of the Successful Recovery, any amounts owed to Holders of Old Class A Common Stock Interests shall be promptly liquidated (or, at XO's or Reorganized XO's election, the value thereof determined as described above shall be paid in cash by XO or Reorganized XO) and the proceeds of such liquidation or the value of such Other Consideration, as the case may be, together with that portion of the Successful Recovery that does not involve Other Consideration, shall be distributed in the same manner and to the same persons or entities as any cash consideration portion of a Successful Recovery; provided, however, that the amounts payable to Holders of Old Class A Common Stock Interests in respect of any Other Consideration portion of a Successful Recovery shall in no event exceed twenty million dollars (\$20,000,000).

All Holders of Claims against and Interests in XO shall be bound by the terms of the Shareholder Stipulation.

ARTICLE IV

MEANS FOR IMPLEMENTATION OF THE PLAN

4.1. *Continued Corporate Existence and Vesting of Assets in Reorganized XO.* After the Effective Date, Reorganized XO shall continue to exist in accordance with the law in the jurisdiction in which it is incorporated and pursuant to its Certificate of Incorporation and Bylaws in effect prior to the Effective Date, except to the extent such Certificate of Incorporation and Bylaws are amended under this Plan. Except as otherwise provided in this Plan, on and after the Effective Date, all property of the Estate of the Debtor, including all claims, rights and causes of action and any property acquired by Debtor or Reorganized XO under or in connection with this Plan, shall vest in Reorganized XO free and clear of all Claims, liens, charges, other encumbrances and Interests other than (a) the liens of Holders of Other Secured Claims pursuant to applicable constituent documents and (b)(i) in the event the transactions contemplated by the Investment Agreement are consummated, the liens of the Senior Secured Lenders under the Amended and Restated Senior Credit Facility or (ii) if the Stand-Alone Events occur, the liens under the Exit Facility and the New Junior Secured Loans. On and after the Effective Date, Reorganized XO may operate its business and may use, acquire and dispose of property and compromise or settle any Claims without supervision of or approval by the Bankruptcy Court and free and clear of any restrictions of the Bankruptcy Code or the Bankruptcy Rules other than restrictions expressly imposed by this Plan or the Confirmation Order. Without limiting the foregoing, Reorganized XO may pay the charges that it incurs on or after the Effective Date for Professionals' fees, disbursements, expenses or related support services without application to the Bankruptcy Court.

4.2. *Corporate Governance, Directors and Officers and Corporate Action.*

(a) *Certificates of Incorporation and Bylaws.*

(i) *If the Transactions Contemplated by the Investment Agreement are Consummated:* The Certificate of Incorporation and Bylaws of the Debtor shall be amended as necessary to satisfy the provisions of this Plan, the Bankruptcy Code, and the Investment Agreement and shall include, among other things, (i) pursuant to section 1123(a)(6) of the Bankruptcy Code, a provision prohibiting the issuance of non-voting equity securities, but only to the extent required by section 1123(a)(6) of the Bankruptcy Code; (ii) a provision under which Reorganized XO shall opt out of the provisions of Section 203 of the Delaware General Corporate Law; and (iii) authorization to issue New Class A Common Stock, New Class C Common Stock, New Class D Common Stock, New Class E Common Stock, (including future issuances of Conversion Common Stock) in amounts not less than the amounts necessary to permit the distributions thereof required or contemplated by this Plan, the Investment Agreement and the Management Stock Purchase Agreement. After the Effective Date, Reorganized XO may amend and restate the Amended Certificates of Incorporation and Bylaws as permitted by applicable law.

(ii) *If the Stand-Alone Events occur:* The Certificate of Incorporation and Bylaws of the Debtor shall be amended as necessary to satisfy the provisions of this Plan and the Bankruptcy Code, be in a form reasonably acceptable to the Administrative Agent and be consistent with the terms and conditions of the Stand-Alone Term Sheet and any related agreements and shall include, among other things, (i) pursuant to section 1123(a)(6) of the Bankruptcy Code, a provision prohibiting the issuance of non-voting equity securities, but only to the extent required by section 1123(a)(6) of the Bankruptcy Code; (ii) authorization to pay any amounts that are due or may become due pursuant to the Retention Bonus Plan; and (iii) authorization to issue the New Reorganization Common Stock pursuant to or upon exercise of the Post-Termination Securities, in amounts not less than the amounts necessary to permit the distribution thereof required or contemplated by this Plan. After the Effective Date, Reorganized XO may amend and restate the Amended Certificates of Incorporation and Bylaws as permitted by applicable law.

(b) *Directors and Officers of Reorganized XO.* Subject to any requirement of Bankruptcy Court approval pursuant to section 1129(a)(5) of the Bankruptcy Code, as of the Effective Date, the initial officers of Reorganized XO shall be the officers of the Debtor on the Filing Date (or as otherwise agreed to by the Investors, if applicable, prior to the Confirmation Date).

(i) *If the Transactions Contemplated by the Investment Agreement are Consummated:* On the Effective Date, the Board of Directors of Reorganized XO will consist of up to twelve (12) members. The Forstmann Little Investors have the right to nominate ten (10) directors to Reorganized XO's Board of Directors, including up to five (5) independent directors nominated by Telmex to Reorganized XO's Board of Directors. XO's current Chairman of the Board and Chief Executive Officer will continue to serve Reorganized XO in those capacities. XO's Bylaws will be amended pursuant to the terms of the Investment Agreement. Moreover, Reorganized XO's Certificate of Incorporation shall be amended, as required by the terms of the Investment Agreement, including to opt out of the provisions of Section 203 of the Delaware General Corporation Law. Pursuant to section 1129(a)(5) of the Bankruptcy Code, XO will disclose, on or prior to the Confirmation Date, the identity and affiliations of any other person proposed to serve on the initial board of directors of Reorganized XO, and, to the extent such person is an insider other than by virtue of being a director, the nature of any compensation for such person. The classification and composition of the board of directors of Reorganized XO shall be consistent with its Amended Certificate of Incorporation and Bylaws. Each such director and officer shall serve from and after the Effective Date pursuant to the terms of the Amended Certificate of Incorporation and Bylaws, the other constituent documents of Reorganized XO, and applicable law. The initial officers of XO shall be the officers of XO as of the Petition Date or such other officers as shall be reasonably acceptable to the Investors to the extent provided by the Investment Agreement.

(ii) *If the Stand-Alone Events occur:* On the Effective Date, the Board of Directors of Reorganized XO will consist of seven (7) members designated as follows: (i) two by the Reorganized XO's senior management and (ii) five by the Holders of Allowed Senior Secured Lender Claims, provided that if the Rights Offering yields more than \$150 million, then one of the members of the Board nominated by the Holders of Senior Secured Lender Claims shall resign and the remaining directors shall elect to fill the vacancy an individual nominated by one or more of the parties who exercised Rights. The Amended Certificate of Incorporation and Bylaws shall effectuate the forgoing provisions.

(c) *Corporate Action.* On the Effective Date, the adoption of the Amended Certificates of Incorporation and Bylaws or similar constituent documents, the selection of directors and officers for Reorganized XO, and all other actions contemplated by this Plan and the Investment Agreement shall be authorized and approved in all respects (subject to the provisions of this Plan). All matters provided for in this Plan involving the corporate structure of the Debtor or Reorganized XO, and any corporate action required by the Debtor or Reorganized XO in connection with this Plan, shall be deemed to have occurred and shall be in effect without any requirement of further action by the security holders or directors of the Debtor or Reorganized XO. On the Effective Date, the appropriate officers of Reorganized XO and members of the board of directors of Reorganized XO shall be authorized and directed to issue, execute and deliver the agreements, documents, securities and instruments contemplated by this Plan in the name of and on behalf of Reorganized XO.

4.3. *Effectuating Documents and Further Transactions.* Each of the Debtor or Reorganized XO, as appropriate, is authorized to execute, deliver, file or record such contracts, instruments, releases and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement and further evidence the terms and conditions of this Plan and any notes or securities issued pursuant to this Plan.

4.4. *Cancellation of Notes, Other Old Equity, Old Common Stock and Old Preferred Stock.* On the Effective Date, except as otherwise provided for herein, (i) the Notes, Other Old Equity, Old Common Stock, Old Preferred Stock, and any other notes, bonds (with the exception of surety bonds outstanding), indentures or other instruments or documents evidencing or creating any indebtedness or obligations of, or interests in, the Debtor, except such notes or other instruments evidencing indebtedness or obligations of the Debtor that are Unimpaired, Reinstated, or amended and restated under this Plan (including, if applicable upon implementation of the transactions contemplated under the Investment Agreement, the Senior Secured Lender Claims), shall be cancelled, and (ii) the obligations of the Debtor under any agreements, Indentures or certificates of designation governing the Notes, Other Old Equity, Old Common Stock, Old Preferred Stock, and any other notes, bonds (with the exception of surety bonds outstanding), indentures or other instruments or documents evidencing or creating any indebtedness or obligations of, or interests in, the Debtor, except such notes or other instruments evidencing indebtedness or obligations of the Debtor that are Unimpaired, Reinstated or amended and restated under this Plan (including, if applicable upon implementation of the transactions contemplated under the Investment Agreement, the Senior Secured Lender Claims), as the case may be, shall be discharged; provided, however, that the Notes and Indentures shall

continue in effect solely for the purposes of (i) allowing the holders of the Senior Note Claims to receive their distributions hereunder, (ii) allowing the Senior Note Trustee to make the distributions to be made on account of the Senior Notes, and (iii) permitting the Senior Note Trustee, as it may choose, to assert any Note Trustee Charging Lien it may have against such distributions for payment of the Note Trustee Fees.

4.5. Issuance of New Securities.

(i) *If the Transactions Contemplated by the Investment Agreement are Consummated:* On or as soon as reasonably practicable after the Effective Date, Reorganized XO, in accordance with the terms of this Plan, shall issue and exchange, as necessary, for the benefit of Holders of the General Unsecured Claims and Note Claims, such shares of New Common Stock as are required by Sections 3.3(b) and (c) of this Plan. Also on the Effective Date, Reorganized XO shall issue to the Investors the New Investor Common Stock pursuant to the terms of the Investment Agreement. Further, on the Effective Date, Reorganized XO shall issue the Management Common Stock pursuant to the terms of the Management Stock Purchase Agreement. The issuance of the New Common Stock and the Conversion Common Stock is authorized without the need for any further corporate action.

(ii) *If the Stand-Alone Events Occur:* On or as soon as reasonably practicable after the Effective Date, Reorganized XO, in accordance with the terms of this Plan, shall (a) commence the Rights Offering as contemplated by the Stand-Alone Term Sheet and issue for the benefit of the persons exercising Rights such shares of New Reorganization Common Stock as are purchased upon exercise of the Rights and (b) issue and exchange, as necessary, for the benefit of Holders of the General Unsecured Claims and Note Claims, such shares of New Reorganization Common Stock and New Warrants as required by Sections 3.3(b)(ii) and (c)(ii) of this Plan. Also on the Effective Date, Reorganized XO shall issue to Holders of Senior Secured Lender Claims the New Reorganization Common Stock as required by Section 3.3(a)(ii) of this Plan. The issuance of the New Reorganization Common Stock (including, without limitation, respecting the foregoing, the New Options under the Management Incentive Program and the Rights Offering) is authorized without the need for any further corporate action.

4.6. Amended and Restated Senior Credit Facility. On the Effective Date, Reorganized XO is authorized and directed to execute and deliver the Amended and Restated Senior Credit Facility in the event the transactions contemplated by the Investment Agreement are consummated, and such other agreements and instruments contemplated thereby.

4.7. Sources of Cash for Plan Distributions. Except as otherwise provided in this Plan or the Confirmation Order, all Cash necessary for Reorganized XO to make payments under this Plan shall be obtained from existing Cash balances, Cash generated from operations and, (i) if the transactions contemplated by the Investment Agreement are consummated, the sale of shares of New Common Stock pursuant to the terms of the Investment Agreement and the Management Stock Purchase Agreement, or (ii) in the event the Stand-Alone Events occur, the

proceeds from the Exit Facility, the Rights Offering, New Warrants and New Options upon exercise.

4.8. Exemption from Transfer Taxes. Pursuant to section 1146(c) of the Bankruptcy Code, (a) the issuance, transfer or exchange of notes or equity securities under this Plan; (b) the creation of any mortgage, deed of trust, lien, pledge or other security interest; (c) the making or assignment of any lease or sublease; or (d) the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with, this Plan, including, without limitation, any merger agreements; agreements of consolidation, restructuring, disposition, liquidation or dissolution; deeds; bills of sale; and transfers of tangible property, will not be subject to any stamp tax, recording tax, personal property tax, real estate transfer tax, sales or use tax or other similar tax. Any transfers from the Debtor to Reorganized XO or otherwise pursuant to this Plan shall not be subject to any such taxes, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forgo the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment. Unless the Bankruptcy Court orders otherwise, any and all of the foregoing transactions whether taken on or after to the Effective Date shall be deemed to have been in furtherance of, or in connection with, this Plan.

4.9. Authorization for Merger. On the Effective Date, and upon consent of the Administrative Agent, which consent shall not be unreasonably withheld, (a) the Operating Subsidiaries may merge with or transfer assets to other Operating Subsidiaries, and (b) if the Stand-Alone Event occurs, a new corporation may be formed ("New XO"), and XO or Reorganized XO, as the case may be, may merge with and into New XO or a subsidiary of New XO or may transfer all of its assets (including the Operating Subsidiaries) to New XO or wholly owned subsidiaries of New XO, and the stock and securities to be issued under the Plan would be issued by New XO, and XO would dissolve; provided, that in the case of clause (a), if the transactions contemplated by the Investment Agreement are consummated, such merger or transfer shall be subject to any consents of the Investors required by the Investment Agreement.

ARTICLE V

ACCEPTANCE OR REJECTION OF THE PLAN

5.1. Classes Entitled to Vote. Classes 1, 5 and 6 are Impaired and entitled to vote to accept or reject each of the FL/Telmex Plan and Stand-Alone Plan separately. By operation of law, each Unimpaired Class of Claims (i.e., Classes 2, 3 and 4) is deemed to have accepted each of the FL/Telmex Plan and Stand-Alone Plan and, therefore, is not entitled to vote to accept or reject this Plan. By operation of law, Classes 7, 8, 9, 10 and 11 are deemed to have rejected each of the FL/Telmex Plan and Stand-Alone Plan and are not entitled to vote on this Plan.

5.2. Acceptance by Impaired Classes. An Impaired Class of Claims shall have accepted the FL/Telmex Plan or Stand-Alone Plan, as applicable, if (a) the Holders (other than any Holder designated under section 1126(e) of the Bankruptcy Code) of at least two-thirds (2/3)

in amount of the Allowed Claims actually voting in such Class have voted to accept such Plan and (b) the Holders (other than any Holder designated under section 1126(e) of the Bankruptcy Code) of more than one-half (1/2) in number of the Allowed Claims actually voting in such Class have voted to accept such Plan. An Impaired Class of Interests shall have accepted the FL/Telmex Plan or Stand-Alone Plan, as applicable if the Holders (other than any holder designated under section 1126(e) of the Bankruptcy Code) of at least two-thirds (2/3) in amount of the Allowed Interests actually voting in such Class have voted to accept such Plan.

5.3. Cramdown. To the extent necessary, the Debtor shall request Confirmation of this Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code with respect to any Class that rejects, or is deemed to have rejected, this Plan.

ARTICLE VI

PROVISIONS GOVERNING DISTRIBUTIONS

6.1. Distributions for Claims Allowed as of the Effective Date. Except as otherwise provided herein or as ordered by the Bankruptcy Court, distributions to be made on account of Allowed Claims as of the Effective Date shall be made on the Distribution Date or as soon thereafter as is practicable. Any distribution to be made pursuant to this Plan shall be deemed as having been made on the Effective Date if such distribution is made on the Effective Date or as soon thereafter as is practicable. Any payment or distribution required to be made under this Plan on a day other than a Business Day shall be made on the next succeeding Business Day. Distributions on account of Claims or Interests that first become Allowed Claims or Interests after the Effective Date shall be made pursuant to Articles III, VI and VII of this Plan. Notwithstanding the date on which any distribution of securities is made to a Holder of a Claim that is an Allowed Claim on the Effective Date, as of the date of the distribution, such Holder shall be deemed to have the rights of a Holder of such securities distributed as of the Effective Date.

6.2. Interest on Claims. Unless otherwise specifically provided for or contemplated in this Plan or Confirmation Order, or required by applicable bankruptcy law, postpetition interest shall not accrue or be paid on any Claims and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim, other than (a) Other Secured Claims to the extent required by the applicable documents giving rise to such claims and (b) if the transactions contemplated in the Investment Agreement are consummated, Senior Secured Lender Claims as provided in the Senior Credit Facility.

6.3. Distributions by Reorganized XO. Reorganized XO or the Disbursing Agent shall make all distributions required to be distributed under this Plan. However, any distributions on account of Senior Secured Lender Claims shall be made to the Administrative Agent, and distributions on account of Senior Note Claims shall be made to the Senior Note Trustees. Reorganized XO may employ or contract with other entities to assist in or make the distributions required by this Plan.

(a) *Distribution by Senior Note Trustee.* The distributions to be made under the Plan to Holders of Senior Note Claims shall be made to the Senior Note Trustee, which, subject to any right of the Senior Note Trustee to assert its Note Trustee Charging Lien against the distributions, shall transmit the distributions to the Holders of such Senior Note Claims. All payments to Holders of Senior Note Claims shall be made only upon the Holder's compliance with the requirements set forth in Section 6.10(a), or in the event that such instrument is lost, stolen, mutilated or destroyed, upon the Holder's compliance with the requirements set forth in Section 6.11. As soon as practicable after surrender of the Senior Note instrument evidencing the Senior Note Claim, the Senior Note Trustee shall distribute to the Holder thereof such Holder's pro rata share of the distribution, but subject to any right of the Senior Note Trustee to assert its Note Trustee Charging Lien against such distribution.

6.4. *Delivery of Distributions and Undeliverable or Unclaimed Distributions.*

(a) *Delivery of Distributions in General.* Distributions to Holders of Allowed Claims shall be made at the addresses set forth in the Debtor's records or as otherwise available to the Debtor, the Administrative Agent, the Senior Note Trustees, or any other agent or servicer, unless such addresses are superseded by any proofs of claim or transfers of claim that may be filed pursuant to Bankruptcy Rule 3001.

(b) *Undeliverable and Unclaimed Distributions.*

(i) Holding and Investment of Undeliverable and Unclaimed Distributions. If the distribution to any Holder of an Allowed Claim is returned to the Disbursing Agent as undeliverable or is otherwise unclaimed, no further distributions shall be made to such Holder unless and until the Disbursing Agent is notified in writing of such Holder's then current address.

(ii) After Distributions Become Deliverable. Reorganized XO, the Administrative Agent, the Stock Agent or the Senior Notes Trustee, as applicable, shall make all distributions that have become deliverable or have been claimed since the Distribution Date as soon as practicable after such distribution has become deliverable.

(iii) Failure to Claim Undeliverable Distributions. Any Holder of an Allowed Claim that does not assert a claim pursuant to this Plan for an undeliverable or unclaimed distribution within one (1) year after the Effective Date shall be deemed to have forfeited its claim for such undeliverable or unclaimed distribution and shall be forever barred and enjoined from asserting any such claim for an undeliverable or unclaimed distribution against the Debtor or its Estate, Reorganized XO, or its property. In such cases, any Cash for distribution on account of such claims for undeliverable or unclaimed distributions shall become the property of the Estate free of any restrictions thereon and notwithstanding any federal or state escheat laws to the contrary, subject to liens to which Senior Secured Lenders may be entitled (if any). Any New Common Stock or Post-Termination Securities, as applicable, held for distribution on account of such Claim shall be canceled and of no further force or effect. Nothing

contained in this Plan shall require any Disbursing Agent, including, but not limited to, Reorganized XO, to attempt to locate any Holder of an Allowed Claim.

6.5. Record Date for Distributions. As of the close of business on the Distribution Record Date, the transfer register for the Notes, Old Common Stock, Old Preferred Stock and the Other Old Equity, as maintained by XO, the Note Trustees, any other applicable trustee or their respective agents shall be closed and the transfer of such securities or any interest thereon prohibited. The Disbursing Agent will have no obligation to recognize the transfer of, or the sale of any participation in, any Allowed Claim or Interest that occurs after the close of business on the Distribution Record Date, and will be entitled for all purposes herein to recognize and distribute only to those Holders of Allowed Claims or Interests who are Holders of such Claims or Interests, or participants therein, as of the close of business on the Distribution Record Date. The Disbursing Agent and Reorganized XO shall instead be entitled to recognize and deal for all purposes under this Plan with only those record holders stated on any official register as of the close of business on the Distribution Record Date.

6.6. Allocation of Plan Distributions Between Principal and Interest. To the extent that any Allowed Claim or Interest entitled to a distribution under this Plan is comprised of indebtedness and accrued but unpaid interest thereon, such distribution shall, for federal income tax purposes, be allocated to the principal amount of the Claim or Interest first and then, to the extent the consideration exceeds the principal amount of the Claim or Interest, to the portion of such Claim or Interest representing accrued but unpaid interest.

6.7. Means of Cash Payment. Payments of Cash made pursuant to this Plan shall be in U.S. dollars and shall be made, at the option and in the sole discretion of Reorganized XO, by (a) checks drawn on or (b) wire transfer from a domestic bank selected by Reorganized XO. Cash payments to foreign creditors may be made, at the option of Reorganized XO, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

6.8. Withholding and Reporting Requirements. In connection with this Plan and all distributions thereunder, Reorganized XO shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, and all distributions hereunder shall be subject to any such withholding and reporting requirements. Reorganized XO shall be authorized to take any and all actions that may be necessary or appropriate to comply with such withholding and reporting requirements. Notwithstanding any other provision of this Plan, (i) each Holder of an Allowed Claim or Interest that is to receive a distribution of Cash, New Common Stock, and/or Post-Termination Securities, as applicable, shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such distribution, and (ii) no distribution shall be made to or on behalf of such Holder pursuant to this Plan unless and until such Holder has made arrangements satisfactory to Reorganized XO for the payment and satisfaction of such tax obligations or has, to Reorganized XO's satisfaction, established an exemption therefrom. Any New Common Stock or Post-Termination Securities, as applicable, to be distributed pursuant to this Plan shall, pending the implementation of such arrangements, be treated as undeliverable pursuant to Section 6.4 hereof.

6.9. Setoffs. Reorganized XO may, pursuant to section 553 of the Bankruptcy Code or applicable nonbankruptcy law, but shall not be required to, set off against any Claim (other than a Director and Officer Claim) and the payments or other distributions to be made pursuant to this Plan in respect of such Claim, claims of any nature whatsoever that the Debtor or Reorganized XO may have against the Holder of such Claim; provided, however, that neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by Reorganized XO of any such claim that the Debtor or Reorganized XO may have against such Holder.

6.10. Surrender of Instruments or Securities. As a condition precedent to receiving any distribution pursuant to this Plan on account of an Allowed Claim or Interest, the Holder of such Claim or Interest shall tender the applicable instruments, securities or other documentation evidencing such Claim or Interest to Reorganized XO or its Senior Note Trustee or their agents, or the Administrative Agent, as applicable, unless waived in writing by Reorganized XO. Any New Common Stock or Post-Termination Securities, as applicable, to be distributed pursuant to this Plan on account of any such Claim or Interest shall, pending such surrender, be treated as an undeliverable distribution pursuant to Section 6.4(b) of this Plan. Nothing herein shall require the surrender of any documentation by the Senior Secured Lenders.

(a) *Notes.* Each Holder of a Note Claim shall tender its Notes relating to such Claim to its Note Trustee or their agents, as applicable, in accordance with written instructions to be provided to such Holders by Reorganized XO or its Note Trustee as promptly as practicable following the Effective Date. Such instructions shall specify that delivery of such instruments will be effected, and risk of loss and title thereto will pass, only upon the proper delivery of such instruments with a letter of transmittal in accordance with such instructions. All surrendered Notes shall be marked as cancelled.

(b) *Old Preferred Stock and Old Common Stock.* Each Holder of an Old Preferred Stock Interest or Old Common Stock Interest shall tender its Old Preferred Stock or Old Common Stock instruments relating to such interest to Reorganized XO or its agents, as applicable, in accordance with written instructions to be provided to such Holders by Reorganized XO as promptly as practicable following the Effective Date. Such instructions shall specify that delivery of such instruments will be effected, and risk of loss and title thereto will pass, only upon the proper delivery of such instruments with a letter of transmittal in accordance with such instructions. All surrendered Old Preferred Stock or Old Common Stock instruments shall be marked as cancelled.

(c) *Failure to Surrender Instruments.* Any Holder of a Claim or Interest that fails to surrender or is deemed to have failed to surrender the applicable instruments required to be tendered hereunder within one year after the Effective Date shall have its Claim or Interest and its distribution pursuant to this Plan on account of such Claim or Interest discharged and shall be forever barred from asserting any such Claim or interest against Reorganized XO or its property. In such cases, any New Common Stock or Post-Termination Securities held for distribution on account of such Claim or Interest shall be disposed of pursuant to Section 6.4 hereof.

6.11. *Lost, Stolen, Mutilated or Destroyed Securities.* In addition to any requirements under the Indentures or any other applicable agreement, any Holder of a Claim or interest evidenced by an instrument that has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such instrument deliver to Reorganized XO or its Note Trustee or their agents, as applicable: (i) evidence reasonably satisfactory to Reorganized XO or its Note Trustee of the loss, theft, mutilation or destruction; and (ii) such security or indemnity as may be required by Reorganized XO or its Note Trustee to hold Reorganized XO and its Note Trustee harmless from any damages, liabilities or costs incurred in treating such individual as a Holder of an Allowed Claim or Interest. Upon compliance with this Article VI by a Holder of a Claim or Interest evidenced by a Note or other instrument, such Holder shall, for all purposes under this Plan, be deemed to have surrendered such instrument.

6.12. *Fractional Shares.* No fractional shares of New Common Stock, Post-Termination Securities or Conversion Stock shall be distributed. The actual issuance shall reflect a rounding up (in the case of .5000 or more than .5000) of such fraction to the nearest whole New Common Stock, Post-Termination Securities or Conversion Stock share or a rounding down of such fraction (in the case of .4999 or less).

ARTICLE VII

PROCEDURES FOR RESOLVING DISPUTED, CONTINGENT AND UNLIQUIDATED CLAIMS AND INTERESTS

7.1. *Objection Deadline; Prosecution of Objections.* No later than the Claims Objection Deadline (unless extended by an order of the Bankruptcy Court), the Debtor or Reorganized XO, as the case may be, shall file objections to Claims and Interests with the Bankruptcy Court and serve such objections upon the Holders of each of the Claims and Interests to which objections are made, provided, however, that the Debtor and Reorganized XO shall not object to Claims Allowed pursuant to this Plan. Nothing contained herein, however, shall limit Reorganized XO's right to object to Claims or Interests, if any, filed or amended after the Claims Objection Deadline. The Debtor and Reorganized XO shall be authorized to, and shall, resolve all Disputed Claims or Disputed Interests by withdrawing or settling such objections thereto, or by litigating to judgment in the Bankruptcy Court or such other court having jurisdiction the validity, nature and/or amount thereof.

7.2. *Reserve for Disputed Claims.*

(a) ***Establishment of Reserves.*** Within ten (10) Business Days after the Effective Date, Reorganized XO shall establish a reserve (the "Disputed Claims Reserve") on account of the Disputed Claims in Classes 5 (General Unsecured Claims) and 6 (Senior Note Claims). Reorganized XO shall fund the Disputed Claims Reserve with (i) in the event the transactions contemplated by the Investment Agreement are consummated, all of the shares of the Note Common Stock and Cash or, (ii) in the event that the Stand-Alone Events occur, the New Warrants, if any, in each case, that all Holders of Disputed General Unsecured Claims and Disputed Senior Note Claims would receive if all Disputed General Unsecured Claims and Disputed Note Claims were Allowed Claims immediately prior to the Distribution Date in an

amount equal to the Face Amounts of such Disputed Claims. For purposes of calculating the distributions on the Distribution Date to Holders of Allowed Claims in Classes 5 (General Unsecured Claims) and 6 (Senior Note Claims) under Sections 3.3(c) and (d) of the Plan (including, without limitation, the calculation of General Unsecured Claim Portion and Senior Note Claim Portion), all Disputed General Unsecured Claims and Disputed Note Claims shall be deemed to be Allowed Claims in amounts equal to the Face Amounts of such Disputed Claims.

(b) *Distribution Upon Allowance of a Disputed Claim.* When a Disputed General Unsecured Claim or Disputed Senior Note Claim becomes an Allowed Claim, Reorganized XO shall distribute, on or as soon as practicable thereafter, to the Holder of such newly Allowed Claim from the Disputed Claims Reserve a distribution of (i) in the event the transactions contemplated by the Investment Agreement are consummated, the Note Common Stock and Cash equal to the number of shares and amount of Cash or (ii) in the event that the Stand-Alone Events occur, the New Warrants, if any, in each case, that would have been distributed to such Holder with respect to such Claim had such Claim been an Allowed Claim on the Distribution Date based on the Face Amount of such newly Allowed Claim; provided, however, that (i) in the event the transactions contemplated by the Investment Agreement are consummated, the aggregate number of shares and Cash distributed on account of the newly Allowed Claim may not exceed the total number of shares of Note Common Stock and amount of Cash reserved with respect to such Claim in the Disputed Claims Reserve and (ii) in the event that the Stand-Alone Events occur, the aggregate number of New Warrants distributed on account of the newly Allowed Claim may not exceed the total number of New Warrants reserved with respect to such Claim in the Disputed Claims Reserve.

(c) *Final Distribution.* When all Disputed General Unsecured Claims and all Disputed Note Claims have become Allowed Claims or have otherwise been resolved by a Final Order and the applicable distributions have been made on account of such newly Allowed Claims in accordance with Section 7.2(b) of this Plan, (i) in the event that the transactions contemplated by the Investment Agreement are consummated, any and all shares of Note Common Stock and Cash and (ii) in the event that the Stand-Alone Events occur, any and all New Warrants, remaining in the Disputed Claims Reserve (the "Remaining Reserve") shall be distributed, on or as soon as practicable thereafter, to the Holders of the Allowed General Unsecured Claims and Allowed Senior Note Claims as follows: (x) each Holder of an Allowed General Unsecured Claim shall receive its pro rata share (based on a fraction, the numerator of which is the Face Amount of the Allowed General Unsecured Claim and the denominator of which is the aggregate Face Amounts of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of the Remaining Reserve; and (y) each Holder of an Allowed Senior Note Claim shall receive its pro rata share (based on a fraction, the numerator of which is the Face Amount of the Allowed Senior Note Claim and the denominator of which is the aggregate Face Amounts of all Allowed Senior Note Claims) of the Senior Note Claim Portion of the Remaining Reserve.

7.3. No Distributions Pending Allowance. Notwithstanding any other provision of this Plan, no payments or distributions shall be made with respect to all or any portion of a Disputed Claim or Interest unless and until all objections to such Disputed Claim or Disputed Interest have been settled or withdrawn or have been determined by Final Order and

the Disputed Claim or Disputed Interest, or some portion thereof, has become an Allowed Claim or Allowed Interest.

ARTICLE VIII

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1. *Assumption of Executory Contracts and Unexpired Leases.* On the Effective Date, all executory contracts or unexpired leases of Reorganized XO, except for any executory contract or unexpired lease that (i) has been assumed or rejected prior to the Confirmation Date or (ii) is identified on Schedule 8.1 hereto, which Schedule shall be in form and substance acceptable to the Investors to the extent required by the Investment Agreement and may be amended prior to the Confirmation Date, will be deemed assumed in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code. All executory contracts or unexpired leases of Reorganized XO set forth on Schedule 8.1 shall be deemed rejected pursuant to sections 365 and 1123 of the Bankruptcy Code and the Holder of any Rejection Claim shall file a proof of claim within thirty (30) days after the Confirmation Date. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such assumptions, assignments and rejections pursuant to sections 365(a) and 1123 of the Bankruptcy Code. Each executory contract and unexpired lease assumed and/or assigned pursuant to this Article VIII shall remain in full force and effect and be fully enforceable by Reorganized XO in accordance with its terms, except as modified by the provisions of this Plan, or any order of the Bankruptcy Court authorizing and providing for its assumption or applicable federal law. To the extent applicable, all executory contracts or unexpired leases of Reorganized XO assumed pursuant to this Section 8.1 shall be deemed modified such that the transactions contemplated by this Plan shall not be a "change of control" however such term may be defined in the relevant executory contract or unexpired lease and any required consent under any such contract or lease shall be deemed satisfied by the confirmation of the Plan.

8.2. *Cure of Defaults of Assumed Executory Contracts and Unexpired Leases.* Any monetary amounts by which each executory contract and unexpired lease to be assumed pursuant to this Plan is in default shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the default amount in Cash on the later of (i) the Effective Date, (ii) as due in the ordinary course of business or (iii) on such other terms as the parties to such executory contracts or unexpired leases may otherwise agree. In the event of a dispute regarding: (1) the amount of any cure payments, (2) the ability of Reorganized XO or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (3) any other matter pertaining to assumption, the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order resolving the dispute and approving the assumption.

8.3. *Indemnification of Directors, Officers and Employees.* The Director and Officer Claims, to the extent applicable, shall be deemed and treated as Claims arising under executory contracts that are assumed by Reorganized XO pursuant to this Plan and sections 365

and 1123 of the Bankruptcy Code as of the Effective Date. In addition, to the extent such Claims are not included under assumed executory contracts, the Debtor's obligations with respect to such Claims shall be assumed by Reorganized XO and shall survive Unimpaired and unaffected by entry of the Confirmation Order, irrespective of whether such indemnification is owed for an act or event occurring before or after the Petition Date.

8.4. Compensation and Benefit Programs. Except as otherwise expressly provided hereunder, all Employment Contracts are treated as executory contracts under this Plan and on the Effective Date will be assumed pursuant to the provisions of sections 365 and 1123 of the Bankruptcy Code excluding, however, any Employment Contract or portion thereof relating to Other Old Equity, such as those relating to the NEXTLINK Communications, Inc. Change of Control Retention Bonus and Severance Pay Plan, which plan the Company has already terminated. All Employment Contracts assumed pursuant to this Section 8.4 shall be deemed modified such that the transactions contemplated by this Plan shall not be a "change of control" however such term may be defined in the relevant Employment Contracts.

ARTICLE IX

CONFIRMATION AND CONSUMMATION OF THE PLAN

9.1. Conditions to Confirmation. The Bankruptcy Court shall not enter the Confirmation Order unless and until the Confirmation Order is reasonably acceptable in form and substance to the Debtor, the Administrative Agent and, if a Termination Event has not occurred, the Investors (to the extent required by the Investment Agreement)

9.2. Conditions to Effective Date. The following are conditions precedent to the occurrence of the Effective Date:

(a) The Confirmation Order confirming this Plan, as such Plan may have been modified, shall have been entered and become a Final Order in form and substance reasonably acceptable to the Debtor, the Administrative Agent, and, if a Termination Event has not occurred, the Investors (to the extent required by the Investment Agreement) and shall provide that:

(i) the Debtor and Reorganized XO are authorized to take all actions necessary or appropriate to enter into, implement and consummate the contracts, instruments, releases, leases, indentures and other agreements or documents to be executed and/or delivered in connection with this Plan;

(ii) the provisions of the Confirmation Order are nonseverable and mutually dependent; and

(iii) (x) in the event the Investment Agreement is consummated, Reorganized XO is authorized to issue New Common Stock and is authorized to enter into the Amended and Restated Senior Credit Facility and other such agreements and instruments contemplated thereby or (y) in the event a Termination Event occurs and the

Debtor files the Stand-Alone Notice, Reorganized XO is authorized to issue the Post-Termination Securities and is authorized to enter into the Exit Facility and such other agreements and instruments contemplated by the Stand-Alone Term Sheet.

(b) The following agreements or instruments, in form and substance reasonably satisfactory to Reorganized XO, the Administrative Agent and, if a Termination Event has not occurred, the Investors (to the extent required by the Investment Agreement), shall be in full force and effect or shall become effective concurrently with the transactions contemplated on the Effective Date, and, if applicable, all conditions precedent contained therein shall have been satisfied:

(i) Amended Certificates of Incorporation and Bylaws of Reorganized XO;

(ii) If a Termination Event has not occurred, the Amended and Restated Senior Credit Facility and all similar documents provided for therein or contemplated thereby (to the extent required by the Investment Agreement);

(iii) If a Termination Event has not occurred, the Management Stock Purchase Agreement and the ancillary agreements contemplated thereby, to the extent that the transactions contemplated by the Investment Agreement are to be consummated.

(iv) If a Termination Event occurs and the Debtor files the Stand-Alone Notice, agreements and any other instruments that evidence the New Junior Loans, the Post-Termination Securities, the Exit Facility, if applicable, and such other agreements and instruments, to the extent required by the Stand-Alone Term Sheet.

(c) The Amended Certificates of Incorporation and Bylaws of Reorganized XO, as necessary, shall have been filed with the appropriate authority in accordance with such jurisdiction's corporation laws.

(d) All actions, documents and agreements necessary to implement this Plan shall have been effected or executed and shall be reasonably acceptable to the Administrative Agent and, if a Termination Event has not occurred, the Investors (to the extent required by the Investment Agreement).

(e) The new board of directors of Reorganized XO shall have been appointed.

(f) If a Termination Event has not occurred, the Investors shall have made the Investment as required by the Investment Agreement.

(g) If a Termination Event has not occurred, to the extent required by the Investment Agreement, all conditions precedent to the closing of the transactions under the Investment Agreement shall have been satisfied or waived in accordance with the terms thereof.

(h) If a Termination Event occurs and the Debtor files the Stand-Alone Notice, all conditions precedent to closing the Exit Facility (other than the occurrence of the Effective Date) shall have been satisfied or waived.

(i) The Bankruptcy Court shall have approved the Shareholder Stipulation and all other conditions to the effectiveness of the Shareholder Stipulation shall have been satisfied.

9.3. Waiver of Conditions. Each of the conditions set forth in section 9.2 above may be waived in whole or in part by the Debtor (and with the prior written consent of the Administrative Agent which cannot be unreasonably withheld and, if a Termination Event has not occurred, the Investors (to the extent required by the Investment Agreement)) without any other notice to parties in interest or the Bankruptcy Court and without a hearing. The failure to satisfy or waive a condition to the Effective Date may be asserted by the Debtor or Reorganized XO regardless of the circumstances giving rise to the failure of such condition to be satisfied (including any action or inaction by the Debtor or Reorganized XO). The failure of the Debtor or Reorganized XO, the Investors (to the extent required by the Investment Agreement) or the Administrative Agent to exercise any of the foregoing rights shall not be deemed a waiver of any other rights, and each right shall be deemed an ongoing right that may be asserted at any time.

9.4. Consequences of Non-Occurrence of Effective Date. If the Effective Date does not occur prior to March 15, 2003, or by such later date, after notice and hearing, as is proposed by the Debtor, then upon motion by the Debtor and upon notice to such parties in interest as the Bankruptcy Court may direct, the Debtor will seek an order of the Bankruptcy Court vacating the Confirmation Order; provided, however, that the Debtor shall not be precluded from seeking to vacate the Confirmation Order prior to such date; provided, further, however, that notwithstanding the filing of such motion, the Confirmation Order may not be vacated if the Effective Date occurs before the Bankruptcy Court enters an order granting such motion. If the Confirmation Order is vacated pursuant to this Section 9.4, (a) this Plan shall be null and void in all respects; and (b) any settlement of Claims and Interests provided for hereby shall be null and void without further order of the Bankruptcy Court.

ARTICLE X

EFFECT OF PLAN CONFIRMATION

10.1. Binding Effect. This Plan shall be binding upon and inure to the benefit of the Debtor, all present and former Holders of Claims and Interests, and their respective successors and assigns, including, but not limited to, Reorganized XO.

10.2. Discharge of Claims and Termination of Interests.

(a) Except as provided in the Confirmation Order, pursuant to section 1141(d) of the Bankruptcy Code, the rights afforded under this Plan and the treatment of Claims and Interests under this Plan shall be in exchange for, and in complete satisfaction, discharge and release of, all Claims and termination of all Interests, including any interest accrued on Claims

from the Petition Date. Except as provided in the Confirmation Order or this Plan, Confirmation shall (a) discharge the Debtor from all Claims and other debts that arose before the Confirmation Date and all debts of the kind specified in section 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (i) a proof of claim based on such debt is filed or deemed filed pursuant to section 501 of the Bankruptcy Code, (ii) a Claim based on such debt is allowed pursuant to section 502 of the Bankruptcy Code or (iii) the Holder of a Claim based on such debt has accepted this Plan; and (b) terminate all Interests and other rights of equity security holders in the Debtor; provided, however, all obligations under the Senior Credit Facility shall survive except to the extent expressly replaced by the Amended and Restated Senior Credit Facility.

(b) As of the Confirmation Date, except as provided in this Plan or the Confirmation Order, all entities shall be precluded from asserting against the Debtor, Reorganized XO, their successors or their property, any other or further claims, debts, rights, causes of action, liabilities or equity interests based upon any act, omission, transaction or other activity of any nature that occurred prior to the Confirmation Date. In accordance with the foregoing, except as provided in this Plan or the Confirmation Order, the Confirmation Order shall be a judicial determination of discharge of all such claims and rights of equity security holders in the Debtor, pursuant to sections 524 and 1141 of the Bankruptcy Code, and such discharge shall void any judgment obtained against the Debtor at any time to the extent that such judgment relates to a discharged Claim or Interest.

10.3. *Injunction.*

(a) **Except as otherwise provided in this Plan, entities who have held, hold or may hold Claims against or Interests in the Debtor are (i) permanently enjoined from taking any of the following actions against the Estate or any of its property on account of any such Claims or Interests and (ii) permanently enjoined from taking any of the following actions against the Debtor, Reorganized XO, or their property on account of such Claims or Interests: (A) commencing or continuing, in any manner or in any place, any action or other proceeding; (B) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order; (C) creating, perfecting or enforcing any lien or encumbrance; (D) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtor; and (E) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of this Plan; provided, however, that nothing contained herein shall preclude such persons from exercising their rights pursuant to and consistent with the terms of this Plan.**

(b) **By accepting distributions pursuant to this Plan, each holder of an Allowed Claim or Interest will be deemed to have specifically consented to the injunctions set forth in this Section.**

10.4. Releases.

(a) *Releases by the Debtor.* As of the Effective Date, the Debtor and Reorganized XO, in their individual capacities and as debtor in possession, will be deemed to forever release, waive and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities (other than the rights of the Debtor or Reorganized XO to enforce this Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered thereunder) whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, Reorganized XO, the parties released pursuant to this Section 10.4, the Chapter 11 Case, or this Plan or the Disclosure Statement, and that could have been asserted by or on behalf of the Debtor or its Estate or Reorganized XO, whether directly, indirectly, derivatively or in any representative or any other capacity, against (i) the current and former directors, officers and employees of the Debtor (other than for money borrowed from or owed to the Debtor or its subsidiaries by any such directors, officers or employees as set forth in the Debtor's books and records) and the Debtor's agent, and Professionals, and the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors, and professionals of the foregoing; (ii) the Note Trustees, the Senior Secured Lenders, the Official Committee of Unsecured Creditors and the Administrative Agent, and the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons), and professionals of the foregoing; and (iii) in the event the Investment Agreement is consummated, the Forstmann Little Entities and Telmex, and the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors, and professionals of the foregoing.

(b) *Releases by Holders of Claims and Interests.*

(i) On the Effective Date, in the event that the transactions contemplated by the Investment Agreement are consummated, all holders of Claims and Interests, in consideration for the obligations of the Debtor and Reorganized XO under this Plan, the obligations of the Investors under the Investment Agreement, and the Cash, New Common Stock and other contracts, instruments, releases, agreements or documents to be delivered in connection with this Plan, and each entity (other than the Debtor) that has held, holds or may hold a Claim or Interest, as applicable, will be deemed to forever release, waive and discharge all claims, demands, debts, rights, causes of action or liabilities (other than the right to enforce the Debtor's or Reorganized XO's obligations under this Plan, and the contracts, instruments, releases, agreements and documents delivered under this Plan), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act or

omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the Chapter 11 Case, this Plan or the Disclosure Statement against (i) Forstmann Little Entities, (ii) Telmex, (iii) the current and former directors, officers and employees of the Debtor, (iv) the Note Trustees, the Senior Secured Lenders, the Official Committee of Unsecured Creditors and the Administrative Agent and (v) the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons), and professionals of the foregoing. The releases and injunctions provided in Sections 10.4, 10.5 and 10.6 of this Plan are an integral part of this Plan and are supported by the consideration provided hereunder and under the Investment Agreement.

(ii) On the Effective Date, in the event the Stand-Alone Events occur, (i) each Holder of a Claim or Interest that voted to accept the Plan and (ii) to the fullest extent permissible under applicable law, as such law may be extended or interpreted subsequent to the Effective Date, all Holders of Claims and Interests, in consideration for the obligations of the Debtor and Reorganized XO under this Plan, and the Warrants, New Reorganization Common Stock and other contracts, instruments, releases, agreements or documents executed and delivered in connection with this Plan, and each entity (other than the Debtor) that has held, holds or may hold a Claim or Interest, as applicable, will be deemed to forever release, waive and discharge all claims, demands, debts, rights, causes of action or liabilities (other than the right to enforce the obligations of any party under this Plan, the Investment Agreement, if applicable, and the contracts, instruments, releases, agreements and documents delivered under or in connection with this Plan), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act or omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the Chapter 11 Case, this Plan or the Disclosure Statement against (i) the current and former directors, officers and employees of the Debtor and such Professionals' affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors, and professionals (but in all events excluding the Investors with respect to any breach by either of them under the Investment Agreement); (ii) the Note Trustees, the Senior Secured Lenders, the Official Committee of Unsecured Creditors and the Administrative Agent, and the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons), and professionals of the foregoing (but in all events excluding the Investors with respect to any breach by either of them under the Investment Agreement); and (iii) the Investors excluding with respect to any breach by either of the Investors under the Investment Agreement.

(iii) Notwithstanding anything to the contrary contained herein, except to the extent permissible under applicable law, as such law may be extended or interpreted subsequent to the Effective Date, the releases provided for in this Section 10.4(b) of the Plan shall not release any non-Debtor entity from any liability arising under (x) the Internal Revenue Code or any state, city or municipal tax code, (y) the environmental laws of the United States or any state, city or municipality, or (z) any criminal laws of the United States or any state, city or municipality.

10.5. *Exculpation and Limitation of Liability.*

(a) In the event that the transactions contemplated by the Investment Agreement are consummated, none of the Debtor, Reorganized XO, the Administrative Agents, the Forstmann Little Entities, Telmex, the Note Trustees, the Senior Secured Lenders, the Official Committee of Unsecured Creditors, the Administrative Agents, the entities participating as lenders under the Amended and Restated Senior Credit Facility, nor any of their respective current or former members, partners, officers, directors, employees, affiliates, agents and advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons) shall have or incur any liability to any Holder of any Claim or Interest for any act or omission in connection with, or arising out of the Debtor's restructuring, this Plan, the Chapter 11 Case, the Disclosure Statement, the Investment Agreement, the Bank Plan Support Agreement, the Amended and Restated Senior Credit Facility, the Stockholders Agreement, any agreements relating to the foregoing or to the transactions contemplated by the Stand-Alone Term Sheet, the solicitation of votes for and the pursuit of this Plan, the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, including, without limitation, all documents ancillary thereto, all decisions, actions, inactions and alleged negligence or misconduct relating thereto and all prepetition activities leading to the promulgation and confirmation of this Plan except willful misconduct or gross negligence as determined by a Final Order of the Bankruptcy Court. The foregoing parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under this Plan.

(b) In the event that the Stand-Alone Events occur, none of the Debtor, Reorganized XO, the Investors (except with respect to any breach by either of the Investors under the Investment Agreement), the Note Trustees, the Senior Secured Lenders, the Official Committee of Unsecured Creditors, the Administrative Agents, nor any of their respective current or former members, partners, officers, directors, employees, affiliates, agents and advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons), but in all events excluding the Investors with respect to any breach by either of them under the Investment Agreement, shall have or incur any liability to any Holder of any Claim or Interest for any act or omission in connection with, or arising out of the Debtor's restructuring, including without limitation the negotiation and execution of the Investment Agreement or any agreements relating thereto or to the transactions contemplated by the Stand-Alone Term Sheet, this Plan, the Chapter 11 Case, the Disclosure Statement, the Bank Plan Support Agreement,

the solicitation of votes for and the pursuit of this Plan, the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, including, without limitation, all documents ancillary thereto, all decisions, actions, inactions and alleged negligence or misconduct relating thereto and all prepetition activities leading to the promulgation and confirmation of this Plan except willful misconduct or gross negligence as determined by a Final Order of the Bankruptcy Court. The foregoing parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under this Plan.

10.6. *Injunction Related to Releases and Exculpation.* The Confirmation Order will permanently enjoin the commencement or prosecution by any person or entity, whether directly, derivatively or otherwise, of any claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released pursuant to this Plan, including but not limited to the claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released in Sections 10.4 and 10.5 of this Plan.

10.7. *Preservation of Rights of Action; Cancellation of Note Claims held by Company; Settlement of Litigation Claims.*

(a) ***Preservation of Rights of Action.*** Except as otherwise provided in this Plan, the Confirmation Order, or in any document, instrument, release or other agreement entered into in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Debtor and its Estate shall retain the Litigation Claims. Reorganized XO, as the successor in interest to the Debtor and its Estate, may enforce, sue on, settle or compromise (or decline to do any of the foregoing) any or all of the Litigation Claims.

(b) ***Cancellation of Note Claims, Old Preferred Stock Interests and Old Common Stock Interests held by Company.*** Any Note Claims, Old Preferred Stock Interests and Old Common Stock Interests held by the Company shall be deemed cancelled and released and no distributions shall be made on account of such Claims.

(c) ***Settlement of Litigation Claims.*** At any time after the Confirmation Date and before the Effective Date, notwithstanding anything in this Plan to the contrary, Reorganized XO may settle any or all of the Litigation Claims with the approval of the Bankruptcy Court pursuant to Bankruptcy Rule 9019.

10.8. *Termination of Subordination Rights and Settlement of Related Claims.*

(a) The classification and manner of satisfying all Claims and Interests under this Plan take into consideration all subordination rights, if any, whether arising by contract, under the Indentures or under general principles of equitable subordination, section 510(b) or 510(c) of the Bankruptcy Code, or otherwise.

(b) Pursuant to Bankruptcy Rule 9019 and in consideration of the distributions and other benefits provided under this Plan, the provisions of this Plan will

constitute a good faith compromise and settlement of all claims or controversies relating to the subordination rights that a Holder of a Claim may have or any distribution to be made pursuant to this Plan on account of such Claim. Entry of the Confirmation Order will constitute the Bankruptcy Court's approval, as of the Effective Date, of the compromise or settlement of all such claims or controversies and the Bankruptcy Court's finding that such compromise or settlement is in the best interests of the Debtor, Reorganized XO, their respective properties, and Holders of Claims and Interests, and is fair, equitable and reasonable.

10.9. *Term of Bankruptcy Injunction or Stays.* All injunctions or stays provided for in the Chapter 11 Case under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

ARTICLE XI

RETENTION OF JURISDICTION

Pursuant to sections 105(c) and 1142 of the Bankruptcy Code and notwithstanding entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court will retain exclusive jurisdiction over all matters arising out of, and related to, the Chapter 11 Case and this Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

- (a) Allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the allowance or priority of Claims or Interests;
- (b) Resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which the Debtor is a party or with respect to which the Debtor or Reorganized XO may be liable and to hear, determine and, if necessary, liquidate any Claims arising therefrom;
- (c) Ensure that distributions to Holders of Allowed Claims and Allowed Interests are accomplished pursuant to the provisions of this Plan;
- (d) Decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Debtor that may be pending on the Effective Date;
- (e) Enter such order as may be necessary or appropriate to implement or consummate the provisions of this Plan and all contracts, instruments, releases and other agreements or documents created in connection with this Plan, the Disclosure Statement or the Confirmation Order;
- (f) Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of this Plan or any contract,

instrument, release or other agreement or document that is executed or created pursuant to or in connection with this Plan, or any entity's rights arising from or obligations incurred in connection with this Plan or such documents including, without limitation, the Shareholder Stipulation;

(g) Modify this Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code or modify the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, this Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate this Plan or vacate the Confirmation Order;

(h) Hear and determine all applications for compensation and reimbursement of expenses of Professionals under this Plan or under sections 330, 331, 503(b), and 1103 of the Bankruptcy Code, provided, however, that from and after the Effective Date, the payment of fees and expenses of Reorganized XO, including counsel fees, shall be made in the ordinary course of business and shall not be subject to the approval of the Bankruptcy Court;

(i) Issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any entity with consummation, implementation or enforcement of this Plan or the Confirmation Order;

(j) Hear and determine causes of action by or on behalf of the Debtor or Reorganized XO;

(k) Hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

(l) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked or vacated or distributions pursuant to this Plan are enjoined or stayed;

(m) Determine any other matters that may arise in connection with or relate to this Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order including, without limitation, the Shareholder Stipulation;

(n) Enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Chapter 11 Case;

(o) Hear and determine all matters related to (i) the property of the Estate from and after the Confirmation Date and (ii) the activities of Reorganized XO;

(p) Hear and determine such other matters as may be provided in the Confirmation Order or as may be authorized under the Bankruptcy Code;

(q) Hear and determine any and all matters, claims or disputes arising from or relating to any contract, instrument, release, agreement, or document executed and delivered under or in connection with this Plan; and

(r) Enter an order closing the Chapter 11 Case.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1. *Bar Date for Administrative Claims.* The Confirmation Order will establish an Administrative Claims Bar Date for filing Administrative Claims. Holders of Administrative Claims not paid prior to the Effective Date shall submit proofs of Claim on or before such Administrative Claims Bar Date or forever be barred from doing so. The notice of Confirmation to be delivered pursuant to Bankruptcy Rules 3020(c) and 2002(f) will set forth such date and constitute notice of this Administrative Claims Bar Date. The Debtor and Reorganized XO shall have thirty (30) days (or such longer period as may be allowed by order of the Bankruptcy Court) following the Administrative Claims Bar Date to review and object to such Administrative Claims before a hearing for determination of allowance of such Administrative Claims.

12.2. *Payment of Statutory Fees.* All fees payable pursuant to Section 1930 of Title 28, United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on the Effective Date.

12.3. *Amendment or Modification of this Plan.* Subject to section 1127 of the Bankruptcy Code and, to the extent applicable, sections 1122, 1123 and 1125 of the Bankruptcy Code, the Debtor reserves the right (with the prior written consent of the Investors, to the extent required by the Investment Agreement) to alter, amend or modify this Plan at any time prior to or after the Confirmation Date but prior to the substantial consummation of this Plan. A Holder of a Claim or Interest that has accepted this Plan shall be deemed to have accepted this Plan, as altered, amended or modified, if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

12.4. *Severability of Plan Provisions.* Subject to the terms and conditions of the Investment Agreement (including, without limitations, Section 5.2(m) thereof), if, prior to the Confirmation Date, any term or provision of this Plan is determined by the Bankruptcy Court to be invalid, void or unenforceable, the Bankruptcy Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of this Plan will remain in full force and effect and will in no way be affected,

impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order will constitute a judicial determination that each term and provision of this Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

12.5. *Successors and Assigns.* This Plan shall be binding upon and inure to the benefit of the Debtor and its successors and assigns, including, without limitation, Reorganized XO. The rights, benefits and obligations of any entity named or referred to in this Plan shall be binding on, and shall inure to the benefit of any heir, executor, administrator, successor or assign of such entity.

12.6. *Plan Supplement.* The Plan Supplement, which shall include certain exhibits, lists, schedules, or documents to be executed in connection with this Plan, shall be filed with the Bankruptcy Court not later than five (5) days prior to the Confirmation Hearing. Upon its filing, the Plan Supplement may be inspected in the office of the clerk of the Bankruptcy Court or its designee during normal business hours. Holders of Claims and Interests may obtain a copy of the Plan Supplement upon written request to the Debtor. The documents contained in the Plan Supplement shall be reasonably acceptable to the Investors and shall be approved by the Bankruptcy Court pursuant to the Confirmation Order.

12.7. *Revocation, Withdrawal or Non-Consummation.* The Debtor reserves the right to revoke or withdraw this Plan prior to the Confirmation Date and to file subsequent plans of reorganization. If the Debtor revokes or withdraws this Plan, or if Confirmation or consummation does not occur, then (a) this Plan shall be null and void in all respects, (b) any settlement or compromise embodied in this Plan (including the fixing or limiting to an amount certain any Claim or Interest or Class of Claims or Interests), assumption or rejection of executory contracts or leases affected by this Plan, and any document or agreement executed pursuant to this Plan, shall be deemed null and void, and (c) nothing contained in this Plan, and no acts taken in preparation for consummation of this Plan, shall (i) constitute a waiver or release of any Claims by or against, or any Interests in, the Debtor or any other person, (ii) prejudice in any manner the rights of the Debtor or any other person, or (iii) constitute an admission of any sort by the Debtor or any other person.

12.8. *Notice.* All notices, requests and demands to or upon the Debtor or Reorganized XO, to be effective, shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

XO COMMUNICATIONS, INC.
11111 Sunset Hills Road,
Reston, Virginia 20190
Telephone: (703) 547-2000
Facsimile: (703) 547-2025
Attn: General Counsel

with copies to:

WILLKIE FARR & GALLAGHER
787 Seventh Ave
New York, New York 10019-6099
Telephone: (212) 728-8000
Facsimile: (212) 728-8111
Attn: Tonny K. Ho, Esq.
Bruce R. Kraus, Esq.
Matthew A. Feldman, Esq.

12.9. *Governing Law.* Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules), the laws of (i) the State of New York shall govern the construction and implementation of this Plan and any agreements, documents, and instruments executed in connection with this Plan and (ii) the laws of the state of incorporation of the Debtor shall govern corporate governance matters with respect to the Debtor, without giving effect to the principles of conflicts of law thereof.

12.10. *Tax Liability.* Reorganized XO is hereby authorized to request an expedited determination under section 505(b) of the Bankruptcy Code of the tax liability of the Debtor for all taxable periods ending after the Petition Date through, and including, the Effective Date.

12.11. *Schedules.* All exhibits and schedules to this Plan and this Plan Supplement are incorporated hereby and are made a part of this Plan as if set forth in full herein.

12.12. *Controlling Documents.* To the extent there is any inconsistency or ambiguity between any term or provision contained in the Plan or Investment Agreement, on the one hand, and the Disclosure Statement, the Bank Plan Support Agreement or any other agreement or document executed or delivered in connection therewith, on the other, the terms and provisions of the Plan or Investment Agreement, as applicable, shall control; provided that, to the extent there is any inconsistency or ambiguity between any term or provision contained in the Plan and the Investment Agreement, the terms and provisions of the Investment Agreement shall control.

12.13. *Jurisdiction over Reorganized XO.* Notwithstanding the jurisdiction retained in Article XI hereof, from and after the Effective Date, the Bankruptcy Court shall not have the power to issue any order that modifies the New Common Stock or the rights of the holders thereof.

12.14. *Filing of Additional Documents.* On or before substantial consummation of this Plan, the Debtor shall File such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

Dated: New York, New York
July 22, 2002

Respectfully submitted,
XO COMMUNICATIONS, INC.

By: /s/ Gary D. Begeman
Name: Gary D. Begeman
Title: Senior Vice President,
General Counsel and Secretary

WILLKIE FARR & GALLAGHER
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Debtor and Debtor in Possession

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